

[By Kevin McCoy](#)

Faced with the prospect of an angry backlash from the U.S. public, American International Group announced Wednesday it won't join shareholder lawsuits over the federal government's handling of the insurance giant's \$182 billion bailout at the height of the national recession.

The decision represents a potentially major legal setback for the 2011 lawsuits filed by Starr International, the investment firm of former AIG CEO Maurice Greenberg. The lawsuits in the U.S. District Court in New York and the U.S. Court of Claims allege the U.S. government and Federal Reserve failed to provide adequate compensation to Starr and other AIG shareholders while taking an 80% stake in the insurance firm at the height of the financial meltdown in 2008.

The government launched the bailout when AIG faced economic collapse as its multibillion-dollar bets on mortgage investments went bad. Officials feared that an AIG bankruptcy, coupled with the earlier bankruptcy by Lehman Bros., could cripple the U.S. economy.

Arguing that the government's actions were unconstitutional, the lawsuits seek at least \$25 billion in damages and attorney's fees in a legal showdown between the corporate recipient of Wall Street's largest recession bailout and its government savior of last resort.

After its board of directors heard presentations from both sides Wednesday, AIG said it "has determined to refuse Starr's demand (to join the lawsuits) in its entirety, and will neither pursue these claims itself nor permit Starr to pursue them in AIG's name."

"In considering and ultimately refusing the demand before us, the board of directors properly and fully executed our fiduciary and legal obligations to AIG and its shareholders," said AIG Chairman Robert Miller. "To date, AIG has returned \$205 billion to America, including a profit of \$22.7 billion. We continue to thank America for its support."

The decision may calm public anger building over the lawsuits. In a Tuesday letter to Miller, Rep. Peter Welch, D-Vt., warned that "taxpayers are still furious that they rescued a company whose own conduct brought it down. Don't rub salt in the wounds with yet another reckless decision that is on par with the reckless decisions that led to the bailout in the first place."

But David Boies, Starr International's lead attorney in the lawsuits, voiced regret over the AIG board's decision and said the cases would continue.

"We continue to believe that the attempt by the AIG board to prevent Starr International from pursuing claims on behalf of AIG shareholders is contrary to the shareholders' interests," Boies said. "Whether or not the AIG board will be successful in blocking Starr's efforts to recover damages for their shareholders will ultimately be decided by the court."

The U.S. District Court in Manhattan in November dismissed the case filed there, but Starr International has filed a notice of appeal to that ruling. The U.S. Court of Claims in July denied government motions to dismiss the action filed there.

AIG shares ended trading up 11 cents Wednesday at \$35.76.